

GAO

United States General Accounting Office
Report to Congressional Requesters

January 1990

CENTRAL AMERICA

Humanitarian Assistance to the Nicaraguan Democratic Resistance

DIC
ELECT
MAR 28 1995
C

Approved for public release
Distribution Unlimited

19950322 151

GAO NSIAD-90-62



United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-225832

January 23, 1990

The Honorable Patrick J. Leahy
Chairman, Subcommittee on Foreign
Operations
Committee on Appropriations
United States Senate

The Honorable Christopher J. Dodd
Chairman, Subcommittee on Western
Hemisphere and Peace Corps Affairs
Committee on Foreign Relations
United States Senate

The Honorable David R. Obey
Chairman, Subcommittee on Foreign
Operations, Export Financing and
Related Programs
Committee on Appropriations
House of Representatives

The Honorable George W. Crockett, Jr.
Chairman, Subcommittee on Western
Hemisphere Affairs
Committee on Foreign Affairs
House of Representatives

In response to your request, we reviewed the Agency for International Development's administration of \$27.14 million in humanitarian assistance to the Nicaraguan Resistance. These funds were appropriated under the fiscal year 1989 Defense Appropriations Act (P.L. 100-463) for the period of October 1, 1988, to March 31, 1989.

We are sending copies of this report to other interested congressional committees; the Administrator, Agency for International Development; the Secretaries of Defense and State; and the Director, Office of Management and Budget.

This report was prepared under the direction of Joseph E. Kelley, Director, Security and International Relations Issues, who may be reached on (202) 275-4128 if you or your staff have further questions.

Frank C. Conahan
Assistant Comptroller General

Accession For	
NTIS CRA&I	<input checked="checked" type="checkbox"/>
DTIC TAB	<input type="checkbox"/>
Unannounced	<input type="checkbox"/>
Justification	
By	
Distribution/	
Availability Codes	
Dist	Avail and/or Special
A-1	

Executive Summary

Purpose

The Congress has been concerned that assistance provided to the Nicaraguan Resistance in Central America be spent as it intended. As a result, GAO was asked to examine the Agency for International Development's (AID) administration of \$27.1 million in humanitarian aid to this group. GAO's objectives were to determine whether AID provided only those goods and services authorized under legislation and adopted adequate controls to administer procurement and monitor deliveries of goods, services, and payments.

Background

The fiscal year 1989 Defense Appropriation Act (P.L. 100-463) provided \$27.14 million in humanitarian assistance to the Nicaraguan Resistance for the period of October 1, 1988, to March 31, 1989. These funds reflected the second phase of humanitarian assistance. Unlike the first phase, consisting of \$17.7 million authorized from April through September 1988 (P.L. 100-276), the second-phase funds were not subject to monthly ceilings and certain earmarks. A third phase consisting of \$49.75 million was provided to be used through February 1990 (P.L. 101-14). By March 31, 1989, AID had obligated about \$23.2 million of the \$27.14 million authorized for the second phase and had returned the remaining \$3.9 million to the U.S. Treasury in November 1989.

Results in Brief

AID complied with Public Law 100-463 in providing humanitarian assistance to the Resistance¹ during the second phase and applied adequate controls in administering the procurement and delivery of goods and services. The lifting of monthly spending ceilings increased AID's flexibility to procure items. AID improved medical assistance and provided training through the use of contractors and other support and increased the number of recipients of cash payments.

Principal Findings

AID Complied With Legislative Requirements

In accordance with the law, AID provided only authorized assistance to the Resistance and suspended family assistance payments for four Resistance members convicted or accused of human rights abuses. In

¹Resistance refers to members of the Nicaraguan Democratic Resistance and an Indian Resistance force known as Yatama.

Costa Rica, an intermediary designated to deliver family assistance payments to Resistance members improperly paid out some of these funds. As a result, AID adopted new guidelines for transferring funds to intermediaries.

AID Adopted Adequate Procedures

AID's procedures for administering and controlling purchases and deliveries of cash, commodities, and supplies ensured that expenditures could be adequately tracked and verified. Further, AID officials implemented controls to ensure that purchases were permissible and to verify suppliers' legitimacy and reasonableness of prices. Finally, auditors from AID's Regional Office of the Inspector General and the private accounting firm of Price Waterhouse maintained close oversight of the program.

Lifting of Monthly Ceilings Increased AID's Flexibility

The legislation for the first phase of assistance included monthly spending ceilings that limited AID's flexibility to procure commodities. These limits were lifted during the second phase. As a result, AID was able to procure larger quantities of clothing and medical supplies and reduce the frequency of deliveries.

Use of Contracts and Grants Improved Medical Assistance and Provided Training

AID relied heavily on others during the second phase to improve medical assistance and provide training. Under an AID contract, the International Medical Corps, a private voluntary organization, provided technical assistance to the Resistance medical corps and provided medicines, equipment, and medical supplies and services to Resistance medical facilities. AID contracted with Creative Associates International, Inc., a U.S. consulting firm, to train Resistance personnel in health, sanitation, and supply management practices and vocational skills and to help improve literacy. With grants from AID, the Nicaraguan Association for Human Rights, a nonprofit organization, and the Resistance conducted human rights training authorized under the legislation.

The two contractors initially encountered difficulties in carrying out their responsibilities in Honduras. Initially, the International Medical Corps faced a lack of skilled medical personnel, deteriorating medical facilities, an inadequate supply of medicines and a lack of a reliable inventory system. By the end of the phase, the contractor had recruited skilled personnel and significantly upgraded facilities, but continued to have problems maintaining reliable inventory data and an adequate supply of medicines.

Creative Associates initially experienced problems in recruiting trainers, obtaining materials from the United States, and constructing training facilities. By the end of the phase, however, the contractor had hired staff, constructed adequate facilities, and directly or indirectly trained approximately 6,000 Resistance personnel.

The two organizations that received grant funds to conduct human rights training provided instruction regarding treatment of civilians and other armed forces personnel and the Resistance military code of conduct. By the end of the phase, about 8,600 Resistance members had been trained.

Number of Recipients of Cash Payments Increased

During the first phase of assistance, AID made two types of cash payments to the Resistance: family assistance payments and cash-for-food payments. The legislation authorizing the first phase of assistance established no limits on cash payments; however, criteria developed by AID in consultation with congressional representatives limited family assistance payments to the same number of recipients and amount paid under a previous U.S. government assistance program. In the second phase, AID, in consultation with congressional representatives, slightly increased the number of Resistance members receiving family assistance payments by 6 percent. AID also began paying salaries to Resistance medical and training personnel.

Recommendations

GAO makes no recommendations.

Agency Comments

In commenting on a draft of this report (see app. I), AID suggested minor modifications to some of the report language, which GAO has incorporated where appropriate.

BLANK PAGE

Page 5

GAO/NSIAD-90-62 Central America

Contents

Executive Summary		2
Chapter 1		8
Introduction	Program Elements of Humanitarian Assistance	9
	AID's Operations	9
	Objectives, Scope, and Methodology	10
Chapter 2		12
AID Complied With	Compliance With Legislative Requirements	12
Legislative	Program Management and Monitoring	15
Requirements and	Conclusions	16
Adopted Adequate		
Oversight Procedures		
Chapter 3		17
Changes in Assistance	Improvement in Procurement Flexibility	17
Program Operations	Changes in Cash Payments to Resistance Members	17
	Use of Contract and Other Support	19
	Increase in Helicopter Use	25
	Conclusion	26
Chapter 4		27
AID's Operations in	Elements of Assistance	27
Costa Rica	Program Management and Monitoring	28
	Conclusions	29
Appendix	Appendix I: Comments From the Agency for International Development	30
Tables		
	Table 2.1: AID's Obligations for Humanitarian Assistance Provided Under Public Law 100-463 (As of July 31, 1989)	14
	Table 2.2: AID Obligations for Transportation (As of April 30, 1989)	14
	Table 3.1. Training Provided to Resistance Members (As of April 30, 1989)	22

Contents

Table 4.1: AID's Obligations for Costa Rica (As of July 31, 1989)	27
---	----

Figures

Figure 3.1: Resistance Members Attending Computer Training	23
Figure 3.2: Resistance Members Attending Human Rights Training	24
Figure 3.3: Air Cargo Handlers Preparing for an AirDrop	25
Figure 3.4: Resistance Members Loading an AID Contractor's Helicopter	26

Abbreviations

AID	Agency for International Development
DOD	Department of Defense
GAO	General Accounting Office

Introduction

The Department of Defense (DOD) Appropriations Act, 1989 (P.L. 100-463, Oct. 1, 1988), authorized the transfer to the Agency for International Development (AID) of \$27.14 million from unobligated DOD appropriations to provide funding for humanitarian assistance to the Nicaraguan Resistance for the period October 1, 1988, through March 31, 1989. The legislation also provided AID with up to \$4 million for administrative expenses and an unspecified amount of funds to pay for transportation expenses. It prohibited the use of funds to provide or transport any type of assistance not specifically authorized, including military assistance. Additionally, AID was restricted from providing assistance to any group that retained in its ranks any individual found to be engaged in gross human rights violations, drug smuggling, or misuse of public or private funds.

Public Law 100-463 also provided \$5 million for medical assistance for the civilian victims of the Nicaraguan civil strife. The law required the Catholic Church in Nicaragua to administer these funds, but the Nicaraguan government has not permitted the use of these funds in Nicaragua. Thus, AID has not expended them.

The \$27.14 million reflected the second phase of humanitarian assistance funding. Under Public Law 100-276, Congress provided \$47.9 million to support peace and democracy in Central America, including \$17.7 million for the first phase of humanitarian assistance to the Resistance, \$17.7 million to aid children who were victims of the Nicaraguan civil strife, \$10 million for activities of a Verification Commission, and \$2.5 million for AID administrative expenses. The initial humanitarian assistance funds were available from April to September 1988.

In April 1989, Congress provided funding under Public Law 101-14 consisting of \$49.75 million for a third phase of humanitarian assistance, an additional \$4.166 million for medical assistance for the civilian victims of the Nicaraguan civil strife, and \$5 million for AID's administrative expenses. The humanitarian assistance funds will remain available through February 1990, and the funds for administrative expenses will remain available until March 1990. The \$4.166 million for medical assistance was available until October 1989.

We issued a report in June 1989¹ on our review of the expenditure of \$17.7 million for the first phase of humanitarian assistance. "Separate

¹Central America: Humanitarian Assistance to the Nicaraguan Democratic Resistance (GAO/NSIAD-89-152, June 1, 1989).

reports will be issued on the expenditure of the \$10 million provided for activities of the Verification Commission and the \$17.7 million to aid children injured in the Nicaraguan civil conflict. GAO is currently reviewing the third phase of funding and will report separately on these expenditures.

Program Elements of Humanitarian Assistance

During the second phase of assistance, Congress authorized AID to provide humanitarian assistance consisting of

- food, clothing, and shelter;
- medical services, medical supplies, and nonmilitary training for health and sanitation;
- nonmilitary training regarding treatment of civilians and other armed forces personnel in accordance with internationally accepted standards of human rights;
- payment for such items and services; and
- replacement batteries for existing communications equipment.

Under Public Law 100-463, funds for the second phase were available from October 1, 1988, through March 31, 1989. In consultation with congressional representatives, AID ceased obligating funds on March 31, 1989, but continued to expend previously obligated funds and provided assistance through April 30, 1989, to avoid a gap in assistance until funding for the third phase became available.

AID's Operations

During the first phase, AID established a Task Force on Humanitarian Assistance in Central America with a headquarters office in Washington, D.C., and field offices in Honduras and Costa Rica to implement the assistance program. As of March 1989, the headquarters staff consisted of a program director, deputy director, and 15 staff members. In April 1988, AID opened an office at the U.S. Embassy in Tegucigalpa, Honduras, to oversee field operations during the first phase. By the end of the first phase in September 1988, the staffing level had increased from 12 to 23 persons. In May 1988, AID opened a second field office in San Jose, Costa Rica, with one official to oversee delivery of assistance. Chapter 4 provides a separate description of program activities in Costa Rica.

AID continued to increase its staff in Honduras during the second phase and by April 1989 had 31 employees. According to AID officials, additional staff were required to manage the increased work load that

resulted from transferring the accounting function from the headquarters office and to manage specific aspects of assistance. The added staff included a deputy director, project officers for family food and deliveries of quartermaster gear, and a chief accountant.

AID augmented its capabilities by using contractors and awarding grants for medical and training support. AID contracted with the International Medical Corps, a private voluntary organization, to upgrade the Resistance's medical program and with Creative Associates International, Inc., a U.S. consulting firm, to provide training in health and sanitation practices, supply management, and vocational skills and to improve literacy. Additionally, AID awarded grants to the Nicaraguan Association for Human Rights, a non-profit organization, and the Resistance to provide human rights training.

AID relied on auditors from its Regional Office of the Inspector General and the private accounting firm of Price Waterhouse to monitor and audit program activities in Honduras and Costa Rica.

Objectives, Scope, and Methodology

At the request of the Chairmen of four congressional Subcommittees, we reviewed AID's administration of funds provided during the second phase. Our objectives were to determine whether AID had provided only authorized goods and services and adopted adequate controls to administer procurement and monitor deliveries of goods, services, and payments.

We met with officials from the AID Task Force and State Department and reviewed pertinent documentation on the assistance program in Washington, D.C., and at the U.S. Embassy in Tegucigalpa, Honduras. We also met with representatives of the Nicaraguan Resistance, International Medical Corps, Creative Associates International, Inc., and the Nicaraguan Human Rights Association at field sites in Tegucigalpa and other locations in Honduras. At each location, we reviewed records and observed the delivery of goods and services.

To determine whether AID adopted adequate controls and provided only authorized assistance, we reviewed AID and contractor records and procedures for purchasing and delivering goods and services. We also reviewed AID's procedures for transferring cash payments to the Resistance and monitored the Resistance's procedures for inventorying and distributing assistance items and disbursing cash payments. In addition,

Chapter 1
Introduction

we reviewed Price Waterhouse's audit reports and monitored the distribution and uses of funds, commodities, and supplies. We made numerous visits to Resistance camps to verify that deliveries of assistance items and services complied with legislative requirements and prohibitions.

We reviewed this program from October 1988 to July 1989 in accordance with generally accepted government auditing standards.

AID Complied With Legislative Requirements and Adopted Adequate Oversight Procedures

AID complied with legislative requirements and established adequate procedures to administer and control the \$27.14 million in humanitarian assistance provided to the Resistance during the second phase. It adopted a hands-on approach and played a direct role in administering and controlling purchases and payments and in monitoring the delivery of cash, commodities, and supplies. Additionally, AID and Price Waterhouse auditors maintained close oversight of day-to-day operations.

Compliance With Legislative Requirements

Public Law 100-463 authorized only certain types of assistance and restricted AID from providing assistance to any group that included individuals who had engaged in specified activities, such as gross violations of human rights. AID complied with these requirements by providing only authorized assistance and suspending family assistance payments for four Resistance members convicted or accused of human rights abuses.

Types of Assistance

AID provided the following assistance:

- Food. AID provided food rations to approximately 46,000 Resistance combatants and family members at camps in Honduras and a recuperation center in Costa Rica.
- Clothing. AID provided standard military attire, referred to as quartermaster gear, to Resistance members in Honduras. Items included trousers, shirts, boots, and field packs. U.S. military aircraft transported these goods from the United States to Honduras.
- Shelter. Resistance personnel in Honduras received items such as tents, cots, and plastic sheeting.
- Medical supplies and services. AID purchased medicines and other medical supplies in the United States and Central America for treatment of Resistance members and their families at Resistance medical facilities¹ in Honduras. AID also hired a medical contractor, International Medical Corps, to provide specialized services and technical assistance to the Resistance medical corps in Honduras. In Costa Rica, AID funding supported a private clinic, a recuperation facility and local hospital, and physician services.

¹According to AID, International Medical Corps, and Resistance officials, the Resistance medical corps also provides medical care to Hondurans living in the vicinity of Resistance medical facilities in central Honduras because no other medical care is available.

- Training. Creative Associates International, Inc., under contract with AID, provided training in health and sanitation practices, supply management, and vocational skills and helped to improve literacy. AID awarded grants to the Nicaraguan Association for Human Rights and the Resistance to provide instruction in human rights issues. These organizations provided training in Honduras and Costa Rica.
- Cash payments. AID provided family assistance payments to a limited number of Resistance personnel in the United States, Honduras, and Costa Rica to purchase food, clothing, and other basic needs. AID also provided cash-for-food payments in Nicaraguan currency (cordobas) for Resistance personnel in, or planning to return to, Nicaragua to purchase food, clothing, and medical care.
- Program support. AID funded administrative expenses incurred by the Resistance in implementing the assistance program.
- Communications. Resistance units in Honduras received replacement batteries to maintain existing communication equipment.
- Roads. AID provided funds to upgrade drainage structures on existing roads in eastern Honduras to facilitate food deliveries to Resistance camps.

Public Law 100-463 authorized AID to use funds from October 1, 1988, through March 31, 1989. Of the \$27.14 million for humanitarian assistance, AID had obligated approximately \$23.2 million by March 31, 1989.² According to an AID official, these funds were sufficient to provide assistance until the third-phase funds became available. Thus, \$3.9 million was not obligated and was returned to the U.S. Treasury in November 1989.

Table 2.1 shows AID's obligations by type of assistance.

²According to an AID official, the amount obligated represents the amount that AID will have actually expended after paying all outstanding debts.

Chapter 2
AID Complied With Legislative Requirements
and Adopted Adequate Oversight Procedures

Table 2.1: AID's Obligations for Humanitarian Assistance Provided Under Public Law 100-463 (As of July 31, 1989)

Type of assistance	Total
Food	\$5,626,859
Clothing	4,209,066
Shelter	378,415
Medical services and supplies	6,338,663
Training	2,168,020
Cash payments	
Family assistance	2,464,876
Cash-for-food	914,642
Program support	547,126
Communications (Batteries)	55,397
Roads	504,778
Total obligated	23,207,852
Amount Unobligated	3,932,138
Total funds available	\$27,140,000

The \$27.14 million for the second phase exceeded the \$17.7 million provided for the first phase of funding by \$9.44 million. Both phases covered 6-month periods. AID used the additional funding available for the second phase primarily to contract for medical and training support.

By March 30, 1989, AID also obligated approximately \$1.5 million of the \$4 million available for administrative expenses³ and about \$2.6 million for transportation expenses. Transportation expenses included payments for delivery of supplies from the United States to Honduras on U.S. military aircraft and for delivery of supplies to Resistance camps in Honduras by local trucking firms and two aviation contractors. Two contract helicopters and a DC-6 aircraft provided air transport. However, the DC-6 crashed in February 1989 and AID increased the use of the two helicopters.

Table 2.2 shows AID's obligations for transportation as of April 30, 1989.

Table 2.2: AID Obligations for Transportation (As of April 30, 1989)

Type of transportation	Obligations
Air	\$1,883,111
Surface	742,485
Total	\$2,625,596

³According to an AID official, AID did not need the remaining \$2.5 million and returned the funds to the U.S. Treasury in November 1989.

Suspension of Payments

During the second phase, AID cut off or suspended family assistance payments to four Resistance members involved in human rights abuses. AID's policy was that any person who had been found guilty of a human rights violation and who had exhausted the right to appeal was to be barred from receiving any form of assistance. Pending investigation or outcome of an appeal, persons suspended from the Resistance and their family members could receive food rations; however, family assistance payments were to be deferred until a final judgement was reached. The Resistance and the Nicaraguan Association for Human Rights, working with the State Department, investigate allegations of human rights abuses by Resistance members.

In March 1989, a Resistance tribunal convicted six persons and found five others innocent in a case involving abuses of prisoners held by the Resistance.⁴ At the time of our review, the tribunal had two other inquiries underway. AID had been providing family assistance payments to four of these Resistance members, including two of the six persons convicted and two involved in the pending inquiries. However, as of May 1989, AID had cut off payments for the two convicted individuals and suspended payments for the other two.

Program Management and Monitoring

AID implemented hands-on management procedures, including (1) the review of requisitions submitted by the Resistance to ensure that requested supplies, quantities, and prices were both reasonable and allowable under the legislation and (2) the verification of deliveries and cash payments. AID's staff also reviewed contractors' expenditures and monitored program activities. AID and Price Waterhouse auditors continued extensive monitoring and auditing of program operations during the second phase. Their activities included conducting inventories at Resistance warehouses, accompanying deliveries to Resistance camps, verifying cash payments, and reviewing AID expenditures. They also monitored the contractor and grantee operations and audited expenditures. Their work showed that no military assistance had been provided.

⁴In December 1988, the Resistance released 104 prisoners to Honduran authorities. According to State Department and Nicaraguan Human Rights Association officials, additional prisoners were released in December 1988 and January 1989. They stated that they found no evidence that the Resistance continues to hold prisoners.

Conclusions

AID complied with legislative requirements by providing only specified types of assistance and cutting off or suspending family assistance payments to Resistance members convicted or accused of human rights violations. As with the first phase, AID established adequate controls and procedures to carry out the assistance program, and we found no indications that AID had provided military assistance or any other type of unauthorized assistance.

Changes in Assistance Program Operations

AID instituted a number of changes in operations during the second phase of the assistance program. Because monthly spending ceilings were lifted, AID was able to increase the quantities of assistance procured at one time. To respond to Resistance needs, AID increased the number of family assistance payment recipients, paid salaries to Resistance medical and training personnel, and used contract and other support to improve medical assistance and provide training. AID also increased the use of contractors' helicopters to deliver assistance to Resistance camps.

Improvement in Procurement Flexibility

The legislation authorizing the first phase of assistance established monthly spending ceilings, which limited AID's ability to stockpile goods available locally on a seasonal basis or to respond to emergency requirements if the monthly ceiling had been reached. The legislation for the second phase did not include monthly ceilings, and AID had more flexibility in procuring assistance items. Consequently, AID was able to purchase larger quantities of military clothing and medical supplies at one time and thus reduce the frequency of deliveries from the United States.

Changes in Cash Payments to Resistance Members

During the first phase of assistance, AID made two types of cash payments to the Resistance: family assistance payments and cash-for-food payments. AID continued these payments during the second phase. However, in consultation with congressional representatives, AID increased the number of Resistance members receiving family assistance payments. AID also began paying salaries to Resistance medical and training personnel.

Increased Number of Recipients of Family Assistance Payments

AID provided family assistance payments to senior Resistance personnel and specialists to defray living expenses. The amounts paid varied, based primarily on the recipient's military rank. The legislation providing assistance for the first and second phases did not place any restrictions on cash payments to the Resistance. However, criteria developed during the first phase by AID, in consultation with congressional representatives, limited the total number of family assistance payment recipients and total amount paid to the number and amount paid under a previous U.S. government assistance program. The criteria specified that

- the number of recipients could not exceed the total number of recipients paid under a previous U.S. government assistance program,

- the total amount of payments could not exceed the previous program's payroll, and
- wholesale changes could not be made to the list of payees.

In January 1989, after consulting with congressional representatives, AID modified the criteria to permit a slight increase of 6 percent in the number of family assistance payment recipients. These recipients included 124 Resistance members and 5 Yatama members in Honduras and 12 Resistance members in Costa Rica. At the same time, AID removed 9 Resistance medical corps doctors from the family assistance payment program and began paying them salaries, as discussed below. AID used the funds previously paid to the doctors to make payments to the 141 new recipients. In accordance with the criteria, AID did not exceed the total amount of payments provided under the previous program. According to AID officials, the Resistance requested the increase to allow payment to officers who had been added due to changes in its organizational structure and to members who were unable to receive payments because funds were previously not available.

Payment of Salaries

During the second phase, AID paid about \$118,550 for the salaries of 39 Resistance members, including 12 Resistance medical corps doctors and 27 Resistance personnel involved in human rights training. In January 1989, AID removed 9 doctors from the family assistance payment program and funded their salaries through its contract with the International Medical Corps. Three additional doctors received salaries beginning in February 1989 and had also previously received family assistance payments. From January to April 1989, AID had paid \$77,000 in salary payments at a monthly range of \$1,000 to \$2,500 per doctor under the contract with the International Medical Corps. The doctors had previously received \$1,000 per month under the family assistance payment program.

According to AID officials, the Resistance medical corps had experienced a problem with retention. By paying the doctors through the contract, AID was able to increase their salaries and provide an incentive for them to remain in the Resistance medical corps.

AID also paid salaries to 27 Resistance training personnel during the second phase. In January 1989, AID awarded a grant of approximately \$178,000 to the Resistance to provide human rights training. The grant, effective through April 1989, authorized the Resistance to hire Resistance members and others to conduct the training. Beginning in January

1989, the Resistance hired 32 trainers, including 27 Resistance members and 5 civilians. These persons trained Resistance members in the organization's code of conduct, treatment of prisoners, and other human rights issues. Six of the Resistance members had previously received family assistance payments, but AID removed them from the program as soon as they began receiving salaries. Price Waterhouse auditors verified that the 32 trainers were conducting training. From January to April 1989, AID paid about \$55,754 in salaries to the trainers, including \$41,554 to the Resistance members and \$14,200 to the civilians. Monthly salaries ranged from about \$200 to \$2,000 per month.

Use of Contract and Other Support

During the second phase, AID relied heavily on others to help improve medical support and provide training to the Resistance. The International Medical Corps provided medical support to the Resistance and their families in Honduras by supporting the Resistance medical corps¹ through training, technical assistance, and provision of specialized medical services and medical equipment. It also delivered medical services and supplies to the Yatama and their families and provided supplemental medical support to Resistance members and their families in Costa Rica.

Creative Associates International, Inc., trained Resistance personnel in health, sanitation, and supply management practices and other vocational skills and helped to improve literacy. The Nicaraguan Association for Human Rights and the Resistance conducted human rights training. In beginning their activities in Honduras, the International Medical Corps and Creative Associates encountered some difficulties, but most of them were quickly resolved.

Medical Care Improvements

AID initially contracted with the International Medical Corps from December 1988 through April 1989 and obligated about \$3 million in second-phase funds for the contract. As of April 1989, the contractor had spent about \$1.8 million of these funds. In May 1989, AID extended the contract through May 1990 and obligated an additional \$5.1 million in third-phase funds.

¹During the first phase, AID had awarded a grant to Dooley/INTERMED Foundation to support the Resistance medical corps. According to AID, AID and Dooley/INTERMED decided that for subsequent phases it would be in the best interest of the activity for the International Medical Corps to assume this responsibility.

The International Medical Corps initially encountered difficulties in Honduras due primarily to the lack of skilled medical personnel, poor physical condition of Resistance medical facilities, unavailability of Resistance personnel for training, shortages of medicines, and the lack of a reliable inventory system. By the end of the phase, the contractor had recruited skilled personnel and upgraded many of the facilities, thus improving medical assistance. However, it was able to conduct only a limited amount of training for Resistance personnel, and maintaining reliable inventory data and an adequate supply of medicines continued to be a problem.

The International Medical Corps concentrated significant efforts on providing technical assistance to the Resistance medical corps, hiring medical specialists, and upgrading Resistance medical facilities, including the main hospital at Aguacate and a rehabilitation center at Rancho Grande in Honduras. These facilities were inadequate to meet the needs of the Resistance and were in a state of disrepair. Conditions were unsanitary, electrical power was unreliable, the water supply was inadequate, and shortages of medical personnel and equipment existed.

The hospital at Aguacate had an inadequate water supply and numerous other serious problems. By April 1989, the contractor had installed two new generators, upgraded electrical systems, and repaired the water system to increase the water flow. In addition, the contractor hired an orthopedic surgeon, an ophthalmologist, a urologist, and other specialists to treat patients and supplied equipment such as x-ray machines.

Permanently disabled Resistance members receive physical therapy and vocational training at Rancho Grande. The facility needed renovating when the International Medical Corps began its work. Its problems included an inadequate water supply, lack of a proper sewage system, leaking roofs, and insufficient physical therapy and other equipment. By April 1989, the contractor had installed a water cistern and new septic tank and constructed new roofs. The contractor had also begun vocational training in shoemaking, auto mechanics, and other skills and furnished physical therapy and recreation equipment.

The International Medical Corps also originally encountered problems in maintaining an adequate supply of medicine. Two of the main Resistance warehouses were in disarray. Resistance medical corps personnel had stacked medicines and other items on the floor because there were no shelves. Flooding had damaged some items and one warehouse lacked electrical service. Stocks had not been inventoried at the warehouses

and Resistance medical facilities, and there was no system to identify usage rates. Therefore, the contractor had no reliable basis for reordering medicines and medical supplies.

By April 1989, the contractor had constructed shelves, arranged for electrical service, inventoried medicines and supplies, and implemented a card file inventory system at the two warehouses and Resistance medical facilities. The contractor subcontracted with a consultant in January 1989 to develop a computerized inventory system to track inventory levels and usage rates; however, the consultant did not complete the system. A second consultant is finalizing the system. Because the system was not ready in April 1989 as originally expected, the International Medical Corps continued to experience difficulty in estimating resupply requirements and was delayed in ordering medicines and supplies for the third phase.

Training Activities

In December 1988, AID contracted with Creative Associates to provide nonmilitary training for health and sanitation authorized in the second-phase legislation. To address deficiencies in Resistance administrative management practices² and improve the delivery of authorized humanitarian assistance, the contract also provided for nonmilitary training in fields related to distribution systems' management and administration. This training included classes in warehousing, computer operations, accounting, and bookkeeping. The contractor also provided training to improve literacy and to teach vocational skills such as equipment operation and radio maintenance.

AID initially contracted with Creative Associates from December 1988 to April 1989 and obligated about \$1 million in second-phase funds for the contract. AID subsequently extended the contract through December 1989 and obligated an additional \$5.2 million in third-phase funds.

Creative Associates personnel began their activities in Honduras in January 1989 and initially encountered difficulties in recruiting trainers on a short-term basis, obtaining materials, and constructing classrooms. By the end of April 1989, the contractor had hired trainers and constructed classrooms, and Resistance personnel were attending training classes.

²Our report on the first phase entitled Central America: Humanitarian Assistance to the Nicaraguan Democratic Resistance (GAO/NSIAD-89-152, June 1, 1989) identified weaknesses in the Resistance's inventory management practices, especially with the distribution and storage of medical supplies.

According to Creative Associates officials, the training was well received and improved Resistance members' skills. For example, some individuals who completed training in reading and writing became sufficiently literate to train other Resistance members. In addition, the officials stated that skills attained through warehousing training resulted in improvements in the physical organization of Resistance warehouses and that Resistance members who had attended sanitation training used their new skills to build new water and drainage systems, thus improving living conditions at camp sites.

According to Creative Associate's records, 1,009 Resistance members attended training classes from January to April 1989. Table 3.1 shows the types of classes offered and number trained.

Table 3.1. Training Provided to
Resistance Members (As of April 30, 1989)

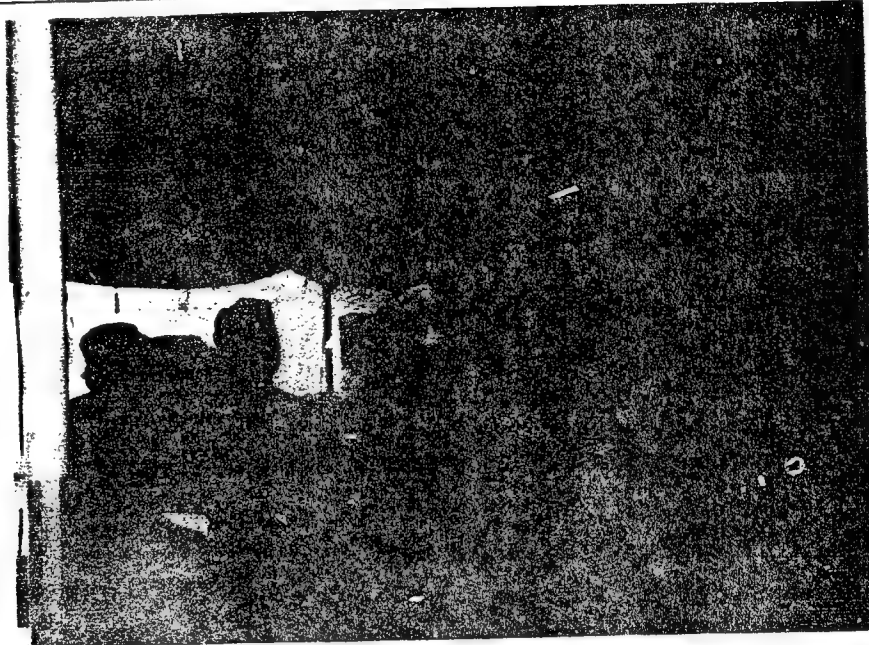
Type of class	Number trained
Accounting	30
Animal husbandry	20
Bookkeeping	15
Clerical/filing	234
Computers	83
Environmental sanitation	66
First aid	27
Equipment operation	33
Inventory control	43
Literacy	74
Outboard motors	15
Radio maintenance/repair	182
Road maintenance	47
Small motor repair	28
Typing	39
Warehousing	45
Drivers education	9
Parachute packing and delivery	19
Total	1,009

Note: Includes classes completed or almost completed as of April 30, 1989.

According to the Creative Associates project manager, about 5,000 other Resistance members benefited from the training program, including 600 who were trained by those who had attended literacy courses. The remainder were beneficiaries of training provided to those who attended

clerical and filing, small motor repair, environmental sanitation, carpentry, and road maintenance courses. These trainees conducted on-the-job training, gave lectures, or used skills learned in training courses, such as road maintenance and latrine construction, to improve living conditions.

**3.1: Resistance Members
ing Computer Training**



Resistance members also received human rights training during the second phase. In December 1988, AID awarded a grant to the Nicaraguan Association for Human Rights to provide training through May 1989 to about 6,000 Resistance members regarding treatment of civilians and other armed forces personnel. The Association has trained, monitored, investigated, and reported on the human rights record of the Resistance since October 1986. Prior to the AID grant, the organization operated with funds from a State Department grant.

AID obligated \$490,000 in second-phase funds for the grant to the Association. In May 1989, AID extended the grant through October 1989 and obligated an additional \$231,000 in third-phase funds. As of May 31,

1989, the Association had expended \$356,000³ and trained about 4,600 Resistance members in Honduras. The training included a basic human rights course for those without any prior training and a more advanced course for officers, military police, and others who had attended previous human rights courses. A special course for human rights observers was also offered.

**3.2: Resistance Members
Receiving Human Rights Training**



In January 1989, AID awarded a grant to the Resistance to provide human rights training to Resistance members through April 1989. AID obligated about \$178,000 in second-phase funds for this grant. AID subsequently extended the grant through March 1990 and obligated \$170,000 in third-phase funds for the extension. The Resistance hired civilians and some of its members to provide instruction on the Resistance military code of conduct and system of military justice. According to the Resistance official directing this training program, about 4,000 Resistance members in Honduras had been trained as of April 1989.

³This expenditure includes \$100,000 for expenses incurred to train 1,500 Resistance members from October through December 1988, prior to AID's grant. According to an AID official, AID reimbursed these expenses because the training was the same as provided for in the grant.

Increase in Helicopter Use

AID contracted with a private Honduran air cargo company to deliver assistance to Resistance camps located in isolated areas in Honduras during the first phase and part of the second phase. The company used an old DC-6 aircraft to air-drop pallets of supplies by parachute to clearings near the camps. A second contractor, Air Logistics International, Inc., provided two helicopters to transport AID officials and supplies to Resistance camps.

Figure 3.3: Air Cargo Handlers Preparing for an Airdrop



The DC-6 crashed into the side of a mountain on February 25, 1989, and all 10 persons aboard were killed. The exact cause of the crash could not be determined, but AID officials believe that the plane ran out of fuel. To compensate for the loss, AID increased the use of the helicopters to deliver supplies previously air-dropped. Local trucking firms delivered supplies to central Honduras where the Resistance loaded the helicopters with supplies to be transported to eastern Honduras. According to AID and Air Logistics officials, this method worked well but placed significant demands on the helicopters and the pilots. To meet the increased work load, the helicopter company hired a third pilot in June 1989. In July 1989, AID contracted with another air cargo company to provide fixed wing aircraft to resume the airdrops.

Figure 3.4: Resistance Members Loading
an AID Contractor's Helicopter



Conclusion

AID instituted a number of changes in operations during the second phase of the assistance program to take advantage of legislative changes, to respond to Resistance requests, to improve medical support and address training needs, and to compensate for the loss of air transport capability.

AID's Operations in Costa Rica

During the second phase, AID provided humanitarian assistance to Resistance members and their families located in Costa Rica and the southern part of Nicaragua. AID financed family assistance payments; a medical assistance program; and human rights, health, and sanitation training. Our review indicated that AID had adopted adequate procedures to administer the assistance and had provided only authorized items or services. However, Price Waterhouse auditors found that an intermediary responsible for delivering family assistance payments to Resistance members in Nicaragua had improperly paid out about \$60,000. As a result, AID implemented new guidelines for transferring funds to intermediaries.

Elements of Assistance

In May 1988, AID established an office at the AID Mission in San Jose, Costa Rica, and assigned one staff person to administer the assistance program. As of July 31, 1989, AID had obligated about \$1.3 million for the second phase of assistance. Table 4.1 shows a breakdown of these obligations as of July 31, 1989.

Table 4.1: AID's Obligations for Costa Rica (As of July 31, 1989)

Type of assistance	Total
Payments	\$332,000
Medical	675,100
Training	285,000
Total obligated	\$1,292,100

Cash Payments

In Costa Rica, AID financed family assistance payments for approximately 130 members to purchase items such as food and clothing. This represents an increase of 12 recipients from the number paid during the first phase.

Medical Assistance

AID continued to fund a medical care system established during the first phase. Sick or injured Resistance members and their families stayed at a recuperation center near San Jose and received treatment at two local hospitals and an outpatient clinic. Several local physicians also treated patients staying at the center. AID also provided food, clothing, and medicines for recuperating patients. According to AID's records, about 700 persons transited the center during the second phase.

The recuperation center was designed to accommodate a maximum of 200 patients. However, between January and March 1989, the number staying at the center increased from 113 to 234. As of August 1989, the number had decreased to 131.

Training

AID provided training to Resistance members and their families through its contract with Creative Associates International, Inc., and its grant to the Nicaraguan Association for Human Rights. Beginning in March 1989, Creative Associates provided training in health and sanitation practices at the recuperation center. As of April 30, 1989, the contractor had trained 86 persons. The Association began conducting human rights training in October 1988 and had trained about 460 Resistance members as of April 30, 1989.

Program Management and Monitoring

Our review indicated that AID had adopted adequate procedures to administer the assistance program, including monitoring cash payments, overseeing purchases of food and supplies, and reviewing contractor and grantee activities and expenditures. In addition, AID relied on Price Waterhouse auditors to audit program operations. Their activities included verifying reasonableness of prices and expenditures and observing family assistance payments. We found no evidence that AID had provided any unauthorized assistance. However, Price Waterhouse auditors found that an intermediary responsible for collecting family assistance payment funds for Resistance members in Nicaragua improperly paid out about \$60,000.

AID's procedures required Resistance members who were unable to collect their payment in person to designate an intermediary. Each intermediary signed a receipt and accepted responsibility for delivering the funds to the recipient. In May 1989, Price Waterhouse auditors reported that one intermediary received \$68,700 in payments from April 1988 through March 1989. Of this amount, the intermediary disbursed \$8,250 to designated recipients, transferred a total of \$55,250 in periodic payments to four Resistance commanders who were not the designated recipients, and loaned \$5,200 to a local businessman.

The auditors were unable to determine whether the funds eventually reached the intended beneficiaries because no documentation or other evidence existed. One Resistance commander stated that he used

\$20,000 to purchase watches, radios, food, and other items for beneficiaries inside Nicaragua but that he had no records to document the purchase or transfer to the beneficiaries. The businessman stated that he owns a firm that buys and sells helicopter spare parts and that he used the loan to purchase spare parts. The AID official in Costa Rica stated that the businessman repaid the loan to the intermediary in August 1989 and that the intermediary reported that the funds were given to other intermediaries to take to the intended recipients.

As a result of these findings, AID's Office of the Regional Inspector General recommended that AID discontinue the practice of using intermediaries. AID did not believe the recommendation was feasible because the majority of payments were being made through intermediaries. Further, AID believed that the security risk of requiring all recipients to be present in Costa Rica to receive payments was too high. Thus, AID elected to continue using intermediaries but adopted stricter guidelines that included limiting the number of beneficiaries that could be represented by each intermediary to three.

Conclusions

AID adopted adequate procedures to administer the assistance program and provided only authorized items and services. As a result of Price Waterhouse audit findings, AID adopted new guidelines for transferring family assistance payments to intermediaries.

Comments From the Agency for International Development

Note: A GAO comment supplementing those in the report text appears at the end of this appendix.

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

DEC - 1 1989

Mr. Frank C. Conahan
Assistant Comptroller General
U. S. General Accounting Office (GAO)
National Security & International Affairs Division
Washington, D.C. 20548

REF: Conahan to Edelman letter dated October 23, 1989

Dear Mr. Conahan:

Following are the TFHA comments on the GAO Phase II Report on the TFHA Program, (GAO Code 463775).

In the footnote at the bottom of page 26, we would suggest changing the last sentence to read as follows. "For subsequent phases, AID and Dooley/Intermed decided that it would be in the best interest of the activity to have the International Medical Corps take over the task of project implementation".

Chapter 4 of the Report is entitled, "AID's Operations in Costa Rica". In three places on page 36, and one place in the first paragraph of page 37, there are false or at least quite misleading statements. Those statements would indicate that TFHA runs a Cash-For-Food program in Costa Rica. That is not true. The only Cash-For-Food delivered to the Southern Front comes from another country, as the Government of Costa Rica does not allow implementation of that program within its territory. Therefore, TFHA requests that you [revise your report accordingly].

On page 36, delete the last word on line 3, and the first four words on line 4 of the text.

In the budget at the bottom of page 36, delete the second item under Cash Payments, "Cash-For-Food \$30,000".

Delete the last full sentence at the bottom of page 36.

Delete the last sentence in the first partial paragraph on page 37.

On behalf of the Task Force, I would like to take this opportunity to express our appreciation for the excellent job which the GAO auditors have done to contribute to the successful implementation of this difficult program.

Sincerely,

Robert B. Mezghan
Robert B. Mezghan
Acting Director
Task Force for Humanitarian Assistance

See GAO comment.

Now on p. 19.

See pp. 27-28.

Appendix I
Comments From the Agency for
International Development

The following is GAO's comment on the letter dated December 1, 1989,
from the Agency for International Development.

GAO Comment

We have incorporated AID's comments and have made suggested deletions in the text of our report where appropriate.